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Member States Developments

Mexico

I. Introduction

The Zedillo's Administration's decision to devalue the peso on December 20, 1994 and its resulting effects on the Mexican economy has clearly raised many issues about the future economic condition of Mexico and the political stability of the Zedillo Administration. Although a full examination of the peso devaluation's effects on the Mexican economy and political arena are beyond the scope of this note, the basic scenario of Mexico's dilemma can be summarized in four aspects:

(1) The Administration's decision to devalue the peso and the international skepticism and its motivations and rationale to do so lead to a massive and immediate withdrawal of foreign investment capital from the Mexican commercial banks, the Mexican equity markets (the Bolsa, Mexico's stock exchange) and the virtual abandonment of investment in Mexican government debt obligations, all of which occurred within one to two weeks following the devaluation.

(2) The large foreign investment vehicles whose funds provided the Mexican government and the banking entities with liquid capital (largely U.S. mutual funds and pension funds) were severely affected by the devaluation, as these groups really had no effective means of hedging against foreign currency risk inherent in the peso because at the time the liquid derivative's market did not exist in which those managers could effectively hedge against fluctuation from the peso.

(3) Without foreign capital to provide liquidity in the short-term in debt markets, the Mexican government came within hours of defaulting on their debt obligations, and thus needed immediately capital injections from the international financial community to keep the government solvent.

(4) The withdrawal of foreign capital from Mexico has placed enormous burdens on the government and Mexican commercial banks to initiate action and thus prevent the country from plunging into a deep recession.

Some of the results stemming from the peso evaluation and ensuing international capital flight were easily predictable, including (i) drastically higher interest rates to public and private borrowers, and accompanying increases in inflation; (ii) a noticeable decrease in the number of corporate securities offerings in the Mexican equity market; (iii) international uncertainty and skepticism over the true valuation of the peso; and (iv) the danger of widespread default by public and private borrowers alike. All of these factors will, of course, lead to a general economic contraction for Mexico in 1995. However, the far more interesting questions to consider are (i) what actions will the Zedillo Administration and the international financial community take to minimize the effects of the devaluation; and (ii) how will the regulatory initiatives affect Mexico's banking system, its relations with its NAFTA partners and other international trade partners? This note provides an introductory analysis

into these questions, and covers events and initiatives within the period of February 1 — May 10, 1995.

II. The U.S.-Mexico Agreement & the Zedillo Economic Austerity Plan

A. THE U.S.-MEXICO AGREEMENT

On February 21, 1995, the United States and Mexico reached an agreement on the terms of the \$20 billion rescue package that officials for both sides asserted would help restore financial market confidence and lay the groundwork for recovery in Mexico. After five days of negotiations in Washington, D.C., U.S. Treasury Secretary Robert E. Rubin and Mexican Finance Minister Guillermo Ortiz signed four agreements that Secretary Rubin said "will serve American economic interests with respect to jobs and standards of living, and American interests with respect to illegal immigration and national security, by assisting the stabilization of the Mexican economy."¹ The following four accords were signed:

1. A framework or "umbrella" type accord broadly defining the terms for U.S. aid;
2. A medium-term exchange stabilization accord that specifies the terms for swap transactions of up to five years;
3. An agreement specifying the terms and conditions for the United States' guaranty of Mexico's debt securities of up to ten years, including the fee structure to cover the Treasury's risk; and
4. An oil proceeds facility accord under which the state-run oil company, Petroleos Mexicanos (PEMEX), will instruct its foreign customers to make payments for oil exports into an account at a U.S. bank, to be transferred to the Bank of Mexico's account at the New York Federal Reserve Bank for the U.S. Treasury to tap if Mexico fails to repay the United States under any of the financing agreements.²

In his remarks at the signing ceremony in the Treasury Department, Secretary Rubin said that Mexico has made the commitment of taking the difficult measures needed for economic stabilization.³ He further stated that the U.S. disbursement of funds will depend upon determinations that the Mexican government and the Banco de Mexico are pursuing the policies agreed upon with the U.S. Treasury and the International Monetary Fund, which likewise approved a \$17.8 billion loan to Mexico on February 1, 1995. The central focus of these measures is for Mexico to maintain a tight monetary policy, press ahead with privatization and structural reforms, and adopt transparency in its financial operations.⁴

1. See 12 Int'l Trade Rep. (BNA) No. 8, at 342 (Feb. 22, 1995). For a description of President Clinton's Executive Order aiding Mexico with the U.S. \$20 billion package, see 12 Int'l Trade Rep. (BNA) No. 5, at 221 (Feb. 1, 1995).
2. *Id.*
3. *Id.*
4. *Id.* For an analysis of the Mexican and U.S. Legislature objections to President Clinton's rescue package, see *Mexican & U.S. Legislators Raise Strong Objections to President Bill Clinton's Rescue Package for Mexican Economy*, SourceMex: Economic News & Analysis on Mexico (U.N.M. Mar. 8, 1995).

The U.S. financial aid involves three types of support: short-term swaps through which Mexico may borrow U.S. dollars for ninety days; medium-term swaps that will extend U.S. dollars to Mexico for up to five years; and U.S. guarantees of Mexico's obligations on government securities for up to ten years, which is aimed at convincing investors to lend money to Mexico for longer terms at lower interest rates.⁵ The U.S. financing was intended to help Mexico meet its Tesobono obligations (the bonds that are payable in pesos but pegged to U.S. dollars) and will refinance and restructure its short-term debt obligations.⁶ Mexico is expected to refinance \$16 billion of the \$21.5 billion in Tesobonos that remain outstanding. In addition, the U.S. financing is also expected to help Mexico strengthen its banking system by supporting obligations associated with the rollover of certificates of deposit and inter-bank credit lines.⁷ The Treasury Department made \$3 billion of this aid available immediately upon the effective date of the agreements, and thereafter made a second installment of \$3 billion in loans available to Mexico on April 17, 1995.⁸ Secretary Rubin stated that the decision to release this tranche of support was based upon Mexico's continued full compliance with the terms of the agreements, clearly indicating that Mexico is in fact meeting those obligations to report information in a timely and forthright manner so that the U.S. Treasury and financial market participants can monitor the country's progress.⁹

B. THE ZEDILLO ECONOMIC AUSTERITY PLAN

Although some dissenters certainly existed, most Mexican business and labor leaders gave qualified support to the new economic austerity plan proposed by the Zedillo Administration on March 9, 1995. Finance Secretary Ortiz, in a presentation of the economic austerity plan on March 9, admitted the harsh measures would impose "high costs on the population" but the resulting plan was the only alternative for an economic recovery.¹⁰ The Mexican's government's austerity plan, which became effective April 1, 1995, include the following measures:

5. *Id.*
6. *Id.*
7. *Id.*
8. See 12 Int'l Trade Rep. (BNA) No. 16, at 698 (Apr. 19, 1995).
9. See 12 Int'l Trade Rep., *supra* note 8. However, members of the U.S. Congress have expressed much skepticism concerning the U.S. aid package. For an analysis thereof, see 12 Int'l Trade Rep. (BNA) No. 8, at 345 (Feb. 22, 1995) (lawmakers sponsoring resolution seeking details on Mexico rescue plan); 12 Int'l Trade Rep. (BNA) No. 9, at 418 (Mar. 1, 1995) (House Banking Committee approves resolution seeking Mexico plan details); 12 Int'l Trade Rep. (BNA) No. 13, at 593 (Mar. 29, 1995) (stating that detailed monthly reports on Mexico will be required under Resolution S384 approved by the Senate Foreign Relations Committee on March 22, 1995); 12 Int'l Trade Rep. (BNA) No. 14, at 631 (Apr. 5, 1995) (House Republican Conference rejecting proposal seeking to stop Mexico loans); 12 Int'l Trade Rep. (BNA) No. 15, at 661 (Apr. 12, 1995) (U.S. Treasury stating that the Clinton Administration is complying with the Congressional request for Mexico documents).
10. 12 Int'l Trade Rep. (BNA) No. 11, at 501 (Mar. 15, 1995). For an analysis of the Mexican business sectors' dissent to the Zedillo economic austerity plan, see *Business Sector One of Strongest Critics of President Ernesto Zedillo's Economic Emergency Measures*, SourceMex: Economic News & Analysis on Mexico (Mar. 22, 1995).

1. A 35% increase in gasoline and diesel prices which will be increased 0.8% each month thereafter;
2. A 20% increase in electricity and gas billings, which will be increased monthly at a rate of 0.8%;
3. A 2.5% increase in tariffs covering airport, tollroads or road holes, and railroad services. Other prices and tariffs will be updated according to international pricing standards to avoid any government subsidies;
4. A 50% increase in the value-added tax from 10% to 15%, which requires Legislative approval. In tax-free and border areas—where most maquiladora companies are—the 10% sales tax will be maintained. The previous zero-tax status, which applied to all production stages of processed foods and medicines, will now only exempt the final consumer;
5. A 10% limit in wage increases;
6. Internal credit limits of 10 billion pesos in 1995 by the Central Bank to strengthen the peso and gradually lower interest rates;
7. Deregulation and simplification of the application processes for the establishment of new businesses;
8. Strengthening the banking system with a \$2.25 billion package provided by the World Bank and the Inter-American Development Bank (IADB);¹¹ and
9. As of March 23, 1995, replacing the Average Interbank Rate (TIP) with the Interbank Equilibrium Rate (TIE) as Mexico's leading lending rate.¹² The TIE will provide a less inflation-sensitive index, and is quoted daily.¹³ As of March 23, 1995, the TIE stood at 90.5%, while the TIP measured 90.05%.¹⁴

The economic austerity plan is one of the obligations that Mexico assumed under the \$50 billion credit package granted by the United States, the International Monetary Fund and others to help solve the crisis induced by the peso devaluation. Of course, this added fiscal burden is quite harsh on Mexican businesses, which already face high interest rates, currency exchange losses, and a market contraction. However, with reference to opposition within the business and labor sectors, Secretary Ortiz added that, without a coordinated effort, Mexico "could risk, through a context of more uncertainty, going into an inflationary spiral of wages and salaries that could lead to hyperinflation causing a dismembering of the productive apparatus and higher social costs."¹⁵ Both the U.S. Treasury and the International Monetary Fund apparently welcomed Mexico's new austerity plan. U.S. Treasury Secretary Rubin asserted that "the stringent measures announced . . . are a major step forward, and we should recognize the political courage involved in taking these steps."¹⁶ Rubin concurrently announced the approval of the first disbursement of \$3 billion for medium-term credits to Mexico from the \$20 billion package of U.S. financing; the \$3 billion being

11. 12 Int'l Trade Rep., *supra* note 10.

12. See *Mexico: Reserves Sink, Despite Reserve Package; Credit Still Shrinking*, Economist Intelligence Unit (Apr. 1, 1995), available on LEXIS.

13. *Id.*

14. *Id.*

15. *Id.*

16. *Id.*

drawn from the Exchange Stabilization Fund is in addition to the \$2 billion in swaps that remain outstanding as short-term loans which Mexico borrowed under earlier arrangements.¹⁷ Rubin reportedly told the U.S. Senate Banking Committee that Mexico will use the \$3 billion solely for its public sector debt, to either retire or stretch out debt, including Tesobonos¹⁸ (as the Banco de Mexico now offers to pay holders of Tesobonos directly in U.S. dollars). In addition, Stanley Fischer, the International Monetary Fund's First Deputy Managing Director, asserted in a released statement that "the management of the IMF welcomes the substantive measures adopted by the Mexican authorities to strengthen their economic program. This program is being supported by an IMF stand-by arrangement in the amount of \$12.1 billion special drawing rights, concurrently equivalent to about \$18.6 billion, which was approved on February 1, 1995."¹⁹

Finally, on March 9, 1995, the World Bank and the IADB announced the approval of loans totalling \$3.25 billion to help the Mexican government support the country's ailing banking sector and enhance the country's social assistance programs.²⁰ This funding includes \$2.25 billion for the banking system, including \$1.5 billion from the World Bank and \$750 million from the IADB; these funds will be channeled to the CNB and the Savings Protection Fund (Fondo Bancario de Protección al Ahorro (FOBAPROA)).²¹ The World Bank and the IADB stated that the funds will be available to guaranty the solvency of Mexican banks, strengthen audit procedures, create mechanisms that reduce the credit risks for inter-bank loans, and establish a system to assist with the restructuring of corporate debt.²² The World Bank and IADB also approved \$1 billion in loans for programs to assist the social sectors most valuable to the economic crisis facing Mexico. Each of the two institutions will contribute about \$500 million of the total loans.²³ These loans will be channeled to advanced programs in the areas of education, health and nutrition, and job training; the new funding for these programs could be crucial, given the Mexican government's commitment and the economic austerity plan to reduce government expenditures by 10% during 1995.²⁴

C. WILL THESE PLANS ACTUALLY WORK?

Although there are many theories on whether the Mexican government's new austerity plan and the capital infusions by the United States, IMF, World Bank, IADB and others will succeed, there are two key factors which could determine the program's success or failure: the Mexican government's ability to prevent massive bankruptcies, and the reaction of the general population to the extreme economic austerity measures imposed by the Zedillo

17. *Id.*

18. *Id.*

19. *Id.*

20. See *World Bank & Inter-American Development Bank Announce Loans to Support Banking Systems & Social Programs in Mexico*, SourceMex: Economic News & Analysis on Mexico (U.N.M. Mar. 15, 1995), available on LEXIS.

21. *Id.*

22. *Id.*

23. *Id.*

24. *Id.*

Administration.²⁵ In the first instance, the Mexican government must at least partially restructure most of the private sector debts in order to forestall massive corporate bankruptcies. The government has already initiated a debt renegotiation program that was drawn up cooperatively with the banking industry organization (Asociación Mexicana de Bancos (AMB)).²⁶ The majority of the financial resources used for the debt restructuring originate from the World Bank and IADB infusions or loans. However, the funds available under the restructuring program will cover only about 65 billion nuevo pesos (US\$10.36 billion) or the equivalent of only 12% of the debt owed to commercial banks; this implies that the assistance will reach a very limited number of companies.²⁷ Recession will likely make it impossible for the Mexican economy to absorb the estimated 1 million new workers expected to enter the workforce in 1995.²⁸ In addition, a projected inflation rate of more than 42% for 1995 will undoubtedly reduce the purchasing power of all Mexican citizens, and the Mexican government expects a 20% decline in real salaries for those workers who manage to retain their jobs.²⁹ Hence, the risk of a "social explosion" in the forthcoming months is quite possible, and has forced the Mexican government to take some steps to offset the impact of the economic austerity program on low-income groups, including (i) the expansion of social security benefits for newly unemployed workers, and (ii) boosting the minimum wage by an additional 12% over the formerly approved 10% increase in early 1995.³⁰ Thus, the Mexican government's economic austerity program may yet fail given the extent of the problems facing the business sector and the immense social impact of the economic program on the country's low-income groups. The combination of these problems may produce a sharp decline in consumption, which could in turn force almost 30% of all companies in Mexico into bankruptcy, according to some estimates.³¹ Under these conditions, the population may not be able to withstand the economic pressures, and social and political conflicts could be expected to explode in Mexico.³²

25. See *Commentary on Mexico's Emergency Economic Program*, SourceMex: Economic News & Analysis on Mexico (U.N.M. Apr. 19, 1995), available on LEXIS.

26. *Id.*

27. *Id.*

28. *Id.* For an analysis of Mexico's unemployment and other employment-related issues following the peso devaluation, see Joshua A. Cohen, *American Chamber/Mexico Surveys the Devaluation's Effect on Company Costs and Workers' Wages*, Business Mexico (Jan.-Feb. 1995); *Government's Emergency Economic Program Expected to Worsen Already Difficult Unemployment Problems*, SourceMex: Economic News & Analysis on Mexico (U.N.M. Mar. 29, 1995).

29. SourceMex, *supra* note 25.

30. *Id.*

31. *Id.*

32. *Id.* For example, on May 1, 1995, more than 100,000 demonstrators marched to the Zocalo, the vast central square in Mexico City, to protest against President Zedillo's economic program. See Leslie Crawford, *Protestors March Against Zedillo*, The Financial Times, Ltd. (May 2, 1995); see also Steve Fainaru, *Mexican Recovery Coming at Cost*, The Boston Globe (Apr. 27, 1995).

III. Regulatory Initiatives in the Mexican Banking System

A. TEMPORARY MEASURES

Mexico's private commercial banks faced increasing pressure in recent months from both the Executive Branch and the Legislature to take steps to help the government address the impact of the peso devaluation on the Mexican economy.³³ High interest rates, which have, as of March 1995, tripled to about 90% since the December 20, 1994 peso devaluation, are forcing many businesses, agricultural producers, and private consumers to default on their loans.³⁴ The non-payment of loans, in turn, has created difficult conditions for Mexican commercial banks, many of which may approach or reach bankruptcy in 1995. According to some estimates, overdue debts in 1995 are expected to approach 20% of all outstanding commercial loans.³⁵ The increase in overdue loans and the rising level of bankruptcies led Mexican legislators and government officials to impose new restrictions on Mexican commercial banks:

1. On February 28, 1995, the banking regulatory agency (Comision Nacional Bancaria (CNB)) ordered Mexican banks to increase the ratio of reserves on hand to at least 60% from the prevailing rate of about 50% to cover overdue debts.³⁶ The CNB directive was intended to help Mexico's financial institutions address the expected wave of bankruptcies and defaults by Mexican companies weakened by the peso devaluation crisis.³⁷ However, banking executives expressed concerns about the directive since the requirement would cause many financial institutions to forego profits or even to enter into debt themselves.³⁸ Nevertheless, Banco de Mexico Governor Miguel Mancera defended the reserve requirement, stating that it would boost the amount of reserves available to address bankruptcies to about 4 billion nuevo pesos (US\$570 million);³⁹ and

2. On March 3, 1995, members of the Chamber of Deputies met with banking executives to express their concerns about high interest rates. During the meeting, attended by members of the four political parties represented in the legislature, bankers were given an ultimatum to work with the Finance Secretariat and Agriculture Secretariat to resolve the problem of overdue loans, which were becoming a drain on the Mexican economy.⁴⁰

33. See *Banking Sector Facing Increasing Strain from Peso Devaluation*, SourceMex: Economic News & Analysis on Mexico (U.N.M. Mar. 8, 1995), available on LEXIS.

34. See SourceMex, *supra* note 34. For an analysis of the peso devaluation's effect on the agricultural sector, see *The Growing Sentiment: Devaluation Feeds All Kinds of Speculation on Agriculture*, Business Mexico (Mar. 1995).

35. *Id.* See also Baron Levin, *Banking System May Suffer But Will Definitely Survive: A Bank Statement for '95*, Business Mexico (Jan.-Feb. 1995); *Mexico: Fears Grow on Mexico Banking System Health*, Euroweek (Mar. 3, 1995).

36. See SourceMex, *supra* note 34.

37. *Id.*

38. *Id.*

39. *Id.*

40. *Id.*

The Zedillo Administration also created a special program to capitalize the banking system, termed as the Programa de Capitalizacion Temporal (Procapte), and is aimed at helping financial institutions raise needed funds by providing emergency government loans to the banking sector.⁴¹ The Procapte program will provide a total of approximately \$11.6 billion of capital injections to improve the banking sector in 1995. These funds include the \$3.25 billion pledged by the World Bank and Inter-American Development Bank.⁴² On March 31, 1995, the CNB confirmed that six banks have received a total of 6.48 billion nuevo pesos (US\$1.03 billion) from the Procapte program to allow them to comply with the capitalization levels of at least 8% required by the Mexican government.⁴³ Although all other Mexican commercial banks have already met the government's minimum capitalization requirement and will not need Procapte assistance in 1995, in late March 1995 the credit administration agency (Cisternas de Administracion y Control de Credito (SAC)) released a report indicating that only 4 of out Mexico's 18 commercial banks had enough resources to meet all obligations, in the case that all depositors suddenly decided to withdraw their funds.⁴⁴

B. INTRODUCTION OF NEW FINANCIAL INSTRUMENTS

In addition, the Zedillo Administration and the Banco de Mexico have unveiled two new financial instruments designed to assist small-scale and medium-sized agricultural producers and businesses deal with the high interest rates and inflation that followed the devaluation of the peso. These instruments—a new unit of value dubbed Univades de Inversion (UDIs), and a program allowing Mexican banks to participate in futures market transactions—were enacted or approved during March 1995.⁴⁵

1. The UDI Program

The UDIs are basically financial accounting units, indexed to the inflation rate, by which as much as a quarter to a third of all loans in the Mexican banking system—largely short-term debt—will be restructured over a time span of 2 to 12 years.⁴⁶ Although originally conceived as a rescue package of about 64 billion nuevo pesos (approximately US\$9.8 billion) to cover 12% of the banking system's loan portfolio, the amount is growing daily and, according to the CNB, will in all likelihood reach 140 billion nuevo pesos (approximately US\$21.5 billion).⁴⁷ The UDI scheme was approved by an unusually united Mexican Congress, although many of the Mexican politicians confessed that they were baffled by the scale and complexity of the arrangements, and even economic and financial specialists are

41. *Id.*

42. *See Six Banks Receive Assistance from State-Run Bank Capitalization Fund*, SourceMex: Economic News & Analysis on Mexico (U.N.M. Apr. 12, 1995), available on LEXIS.

43. *Id.*

44. *Id.*

45. *See Government Unveils Two New Instruments to Help Businesses Cope with High Interest Rates & Uncertainties of Peso-Dollar Rates*, SourceMex: Economic News & Analysis on Mexico (U.N.M. Apr. 5, 1995), available on LEXIS.

46. *See Mexico: Saving the Banks*, 1995 Economist Intelligence Unit (Apr. 1, 1995), available on LEXIS.

47. *Id.*

still attempting to decipher its future fiscal and monetary implications. In essence, the UDI program will work as follows:

a. Mexican commercial banks will transfer their non-performing loans to off-balance trust funds controlled by the Banco de Mexico. These will be converted into indexed units of deposit or UDIs. The principal will appreciate in line with inflation, and the loans will carry real interest rates of up to 12%. The reduction in interest charges—the inflation component having been stripped out—should enable borrowers to service the loans. Once the economy has emerged from recession and growth resumes, borrowers should be in a better position to repay the accumulated principal as well.⁴⁸

b. The commercial banks will in turn receive zero-coupon bonds from the Mexican government, via the Banco de Mexico, in return for the non-performing loans deposited in the trust. The maturity of the bonds will match that of the restructured loans.⁴⁹ The bonds will pay 28-day Treasury certificate (Cetes) rates (approximately 74%, as of April 1995), but the interest will be capitalized and be paid only on maturity of the bonds. The trust, meanwhile, will pay to the Banco de Mexico 4% interest on the appreciating indexed value of the loans which they are holding.⁵⁰

c. Any fiscal or monetary effects will only become apparent once the government bonds reach maturity. Any bonds which are not matched by the maturing bank loans held in the trust due to insolvency of the borrowers will likely have to be covered by new government borrowing.⁵¹

d. The basic gamble of this program is that the poor-quality loans will eventually become better-quality ones as Mexico pulls out of its recession and markets and corporate cashflows improve. If recovery is delayed and inflation and interest rates do not drop as rapidly as anticipated, then the larger problems will be the potential fiscal and monetary tightening some two years down the road, when the first of the new bonds, some of which may not be matched by principle repayments on the restructured bank loans, mature.⁵²

e. In the meantime, a remaining fear is that the indexing of these loans will encourage indexation of financial contracts throughout the Mexican economy, thus making it more difficult to reduce inflation.⁵³

Although the UDIs have emerged as an ingenious means of allowing Mexican banks to swap their "bad debt for good debt," thereby possibly averting a wholesale banking collapse, the Mexican banking officials have emphasized that UDIs will benefit only those businesses that have demonstrated a past ability to meet their debt obligations. The UDIs will allow

48. *Id.*

49. *Id.*

50. *Id.*

51. *Id.*

52. *Id.*

53. *Id.*

these companies to restructure their debt to stretch out payments over periods of 5 or 10 years.⁵⁴

The Zedillo Administration put the UDI program to its initial test in the public sector when it announced on May 4, 1995 that all 17.4 billion nuevo peso state and local government debt owed to commercial banks would be open to UDI restructuring.⁵⁵ This amount was added to the 76 billion nuevo pesos of UDIs already promised by the Administration for restructuring business debts.⁵⁶ The state infrastructure development bank, Banobras, then announced that it would begin to restructure much of the 9.6 billion nuevo peso state and local government debt on its books.⁵⁷ State and local debt represents between 3% and 5% of the total portfolio of the commercial banks.⁵⁸ Under an agreement between the Ministry of Finance, the CNB and the Mexican Bank Association, state and local governments will pay a proportion of outstanding capital and submit proposals to streamline finances in return for lower interest rates.⁵⁹ For state and local governments which amortize 10%, 20% and 30% of capital owed, banks will charge real interest rates of 9.5%, 8.5%, and 7.5%, respectively.⁶⁰ The individual UDI deals will be worked up by negotiations between states and their creditor banks, and is expected to be carried out in the second half of 1995.⁶¹ However, it is as of yet unclear whether some of the worst afflicted states will be able to amortize even 10% of their debt.⁶² The UDI program for businesses has a July 31, 1995 deadline for the restructuring of state savings accounts to finance UDI loans, the longer-term indexed-linked capital may only be financed by short-term, floating-rate loans.⁶³ This may leave the banks and the government trusts which hold the UDIs taking on inflation risk responsibility that has not been adequately proportioned and would grow worse as successive schemes introduce more UDI loans without their deposit counterparts.⁶⁴ Moreover, even as the first priority of the Mexican banks is to restructure debt, there is no guaranty that the debtors will be able to pay off the UDI loans.⁶⁵

2. *Peso-Indexed Futures and Option Contracts*

On a related matter, the Banco de Mexico announced on March 19, 1995 that Mexican commercial banks have been authorized to participate in the purchase of futures contracts at the foreign currency futures market of the Chicago Mercantile Exchange (CME), based

54. See SourceMex, *supra* note 46.

55. See Daniel Dombey, *Doubts Rise Over UDI Plan*, LDC Debt Report/Latin American Markets (May 15, 1995), available on LEXIS.

56. *Id.*

57. *Id.*

58. *Id.* See also *Economic Crisis Caused by Peso Devaluation Creates Difficulties for State & Local Governments*, SourceMex: Economic News & Analysis on Mexico (Apr. 26, 1995); Mark Stevenson, *Mexico to Rescue Indebted States*, U.P.I. (May 4, 1995).

59. See Dombey, *supra* note 55.

60. *Id.*

61. *Id.*

62. *Id.*

63. *Id.*

64. *Id.*

65. *Id.*

upon the anticipated value of the peso in relation to the U.S. dollar.⁶⁶ The banks have been authorized to conduct these transactions at the CME either for themselves or on behalf of customers. Through the purchase of a futures contract, Mexican banks will be able to lock in a price in U.S. dollars for pesos, thus creating an element of certainty for the peso-dollar exchange rate and allow both themselves and corporate customers to hedge their currency risk against fluctuations in the peso-dollar exchange rate. Hence, on April 25, 1995, the CME introduced futures and options contracts on the Mexican peso, marking the first time in 10 years that peso futures and options have been traded on the exchange.⁶⁷ The peso futures and options are the first CME contracts launched (i) as part of the exchange's new emerging markets initiatives, and (ii) to respond to investor demand for products to manage foreign-exchange risk and peso-denominated transactions and investments.⁶⁸

IV. NAFTA Issues and Other Regulatory Initiatives

A. ECONOMIC ASPECTS OF THE PESO DEVALUATION

The Zedillo Administration has attempted to sell long-term benefits of the peso devaluation in terms of future net gains and increased exports.⁶⁹ As construed, the forecasted value of the peso for 1995 (4.5 nuevo pesos for US\$1) is projected to erode the problem of currency overvaluation and thus give domestic Mexican products a competitive edge in the international marketplace.⁷⁰ This, together with a more expensive dollar, is supposed to curb import growth and thereby halt a disproportionate increase in Mexico's current-account deficit.⁷¹ However, the critical inquiry in this regard is whether a cheaper currency will constitute a sufficient condition to stimulate high export-led economic growth: the Mexican government asserts that it can.⁷² The early projections for 1995 placed the post-devaluation current-account deficit at more than half the amount expected before the exchange-rate adjustment: \$14 billion, which is equivalent to 4.2% of gross domestic product.⁷³ Total exports were expected to reach 22.6% of gross domestic product, spurred by growth in the manufacturing sector. The growth in the manufacturing sector, which is higher than the original pre-devaluation forecast of 17.3%.⁷⁴ Thus, in principle, these early estimates reflected the logic of the view that the peso devaluation will increase exports, decrease imports, and therefore erase a great deal of undesirable "red ink" in Mexico's current account.⁷⁵

The Zedillo Administration's "strategy" apparently worked in the early stages, as the most significant impact of the peso devaluation was the reversal of Mexico's trade balance

66. *Id.*

67. See 12 Int'l Trade Rep. (BNA) No. 18, at 787 (May 3, 1995).

68. *Id.*

69. See Roberto Salinas-Leon, *Devaluation Equals More Exports? Guess Again*, Business Mexico (Jan.-Feb. 1995).

70. *Id.*

71. *Id.*

72. *Id.*

73. *Id.*

74. *Id.*

75. *Id.*

from a deficit to a surplus.⁷⁶ According to preliminary government estimates, Mexico attained a trade surplus of approximately \$380 million in March 1995, compared with a trade deficit of \$1.3 billion during the same month in 1994.⁷⁷ However, on April 7, 1995, the Banco de Mexico countered this news in reporting that the consumer price index (Indice Nacional de Precios al Consumidor (IMPC)) surged by 5.9% in March 1995 alone, bringing the accumulated inflation for the January-March quarter to 14.54%.⁷⁸ The relatively high rate for the first quarter of 1995 raised concerns over whether Zedillo's Administration would be able to meet its target of 42% annual inflation for 1995.⁷⁹ In order to reach that target, the inflation rate would have to be limited to an average of slightly more than 3% each month from April through December 1995.⁸⁰ However, the economic austerity measures enacted by the Zedillo Administration notably include higher costs for gasoline and electricity, and a sharp increase in the value-added tax; both measures are highly inflationary.⁸¹ Significantly, many economists attributed the surge in inflation during March 1995 to transportation-related costs in the form of sharp increases in public transportation fares and gasoline prices.⁸² However, even assuming that the Zedillo Administration meets its target for inflation growth and assuming that the peso continues to trade at the current rate of 5.70 per dollar (as of February 1, 1995) for the rest of 1995 and that U.S. and Mexican inflation and Mexican industrial production continue to grow at current levels, many economists forecasted that U.S. exports to Mexico would be cut by 50% or \$27.5 billion in 1995.⁸³ Hence, the forecasts asserted that \$24.7 billion in real U.S. gross domestic product would be lost as a result of the peso devaluation.⁸⁴

B. INTERNATIONAL TRADE ASPECTS OF THE PESO DEVALUATION

1. U.S.-Mexico Trade Relations

The reversal of the trade deficit and the increasing of tariffs have apparently shed a different light on Mexico's NAFTA obligations and trade disputes with the United States and other countries. First, Mexican government and industry have engaged in close consultations on which sectors should proceed with the accelerated tariff reductions under the NAFTA. Speaking at a forum on Western Hemisphere integration at Georgetown University, Raul Urteaga, Economic Advisor for the Mexican Embassy's NAFTA Office, commented that Mexican industry, as a result of Mexico's current economic climate, is taking a hard look at accelerated reductions of Mexican tariffs.⁸⁵ Urteaga cited the services sector as an

76. See *Peso Devaluation Has Varied Impact on Mexican Trade Disputes with Other Countries*, SourceMex: Economic News & Analysis on Mexico (U.N.M. Apr. 26, 1995), available on LEXIS.

77. *Id.*

78. See *Central Bank Reports Nearly 15% Accumulated Inflation During January-March*, SourceMex: Economic News & Analysis on Mexico (U.N.M. Apr. 12, 1995), available on LEXIS.

79. *Id.*

80. *Id.*

81. *Id.*

82. *Id.*

83. See *Mexico's Financial Woes Will Trim U.S. Exports, Economists Predict*, Int'l Trade Daily (BNA) (Feb. 1, 1995).

84. *Id.*

85. See 12 Int'l Trade Rep. (BNA) No. 13, at 578 (Mar. 29, 1995).

area where liberalization under NAFTA could be accelerated consistent with privatization in Mexico.⁸⁶ Although the NAFTA requires gradual elimination of tariffs on goods and services traded between the signatory countries over 15 years, it also provides for accelerating those eliminations in negotiations between the signatory countries.⁸⁷ Second, a handful of trade disputes between the United States and Mexico gained prominence in early 1995. These included the following:

a. On February 9, 1995, the Telephone Workers Union of the Republic of Mexico announced that it would initiate proceedings against Sprint Corp. under provisions of the NAFTA, the first complaint filed by a Mexican Union against a U.S. corporation.⁸⁸ The Union charged that the company's dismissal of 235 employees who attempted to unionize a subsidiary in San Francisco, California ran afoul of its obligations under the trade pact's labor side agreement.⁸⁹ The complaint is the first filed with Mexico's National Administrative Office (NAO)—one of the bodies established by the North American Agreement on Labor Cooperation (NAALC) to review allegations of non-compliance with certain guaranteed labor standards, including the right to organize.⁹⁰ The National Labor Relations Board's subsequent request for an injunction was denied and the parties are currently awaiting a decision from the administrative law judge who held a hearing on the dispute.⁹¹ The Union's complaint requested that the NAO prohibit Sprint Corp. from establishing itself in Mexico "given its track record of abuses against workers who are seeking to organize unions freely and independently."⁹² The complaint also charged that denial of the injunction "constitutes a serious violation" of the NAALC by U.S. authorities.⁹³ The delayed outcome of the hearing and possibility of an appeal "could prolong the proceeding for another 2-3 years," the complaint asserted.⁹⁴ Miguel Angel Orozco, Secretary of the Labor and Welfare Secretariat's NAO in Mexico, asserted on May 4, 1995 that his office's decision to pursue the Sprint case is not related to a report issued by the U.S. NAO, which on April 11, 1995 concluded that the Mexican Government improperly handled an unfair dismissal complaint by 45 Sony workers in Mexico who had tried to form an independent union.⁹⁵ Orozco stated that the Mexican NAO will issue a final report on the Sprint case sometime in late May 1995, and the report will either dismiss the case or request ministerial consultations from the U.S. NAO.⁹⁶

86. *Id.*

87. *Id.*

88. See 12 Int'l Trade Rep. (BNA) No. 7, at 307 (Feb. 15, 1995).

89. *Id.*

90. *Id.*

91. *Id.*

92. *Id.*

93. *Id.*

94. *Id.*

95. See 12 Int'l Trade Rep. (BNA) No. 19, at 814 (May 10, 1995).

96. *Id.*

b. The first NAFTA Trade Dispute Resolution Panel met in Mexico City on April 20, 1995, to discuss Mexican anti-dumping tariffs against imports of flat steel from the United States.⁹⁷ Thirty-eight percent duties were imposed in 1994 against several U.S. steel producers; companies affected by the duties from the two countries were due to present testimony before the panel. However, no decision is immediately expected in the case, and the panel itself has set a deadline for its decision of July 13, 1995.⁹⁸ The panel was composed of five members, two each from the United States and Mexico, and a fifth designated through mutual agreement of the parties.⁹⁹

c. In a separate U.S.-Mexico dispute, the U.S. International Trade Commission (ITC), in a 5-0 decision issued on April 18, 1995 decided against taking any provisional relief against imports of Mexican tomatoes.¹⁰⁰ In its decision, the ITC denied a request by Florida tomato growers for provisional tariffs of up to 50% on Mexican winter tomatoes under Section 202 of the 1974 Trade Act, given that only four days remained in the winter crops' cycle.¹⁰¹ However, the ITC stated that it will continue the investigation through July 1995 under Section 201 of the Act to determine if Florida farmers are entitled to any special government assistance.¹⁰² The Florida tomato case differs from traditional dumping complaints because no unfair trading practices were alleged against Mexican firms. Instead, the ITC must determine if imports of fresh winter tomatoes during January-April are a substantial cause of injury, or threatens serious injury to U.S. industry.¹⁰³

d. On April 26, 1995, officials from the Office of the U.S. Trade Representative confirmed that the United States asked Mexico for formal consultations under Chapter 20 of the NAFTA on Mexico's alleged failure to provide national treatment to a U.S.-owned express delivery company.¹⁰⁴ The United Parcel Service, in an April 26, 1995 press statement, expressed support for the action, stating that Mexico failed to meet its NAFTA obligation to grant U.S. express delivery companies the right to operate the same-sized vehicles as their Mexican competitors.¹⁰⁵ This is the first case the Office of the U.S. Trade Representative has initiated against Mexico under Chapter 20, which establishes institutions responsible for assisting in avoidance and resolution of disputes among the parties on the interpretation of the NAFTA.¹⁰⁶ Article 2006 of the NAFTA provides that a country which comprises the top 8 officials of the NAFTA signatory countries, must convene in 10 days to consider the matter.¹⁰⁷ In the same press statement, UPF officials claimed that

97. See Mark Stevenson, *NAFTA Shows Signs of Strain*, U.P.I. (Apr. 20, 1995), available on LEXIS.

98. See SourceMex, *supra* note 78.

99. *Id.*

100. *Id.*

101. See Stevenson, *supra* note 97.

102. See SourceMex, *supra* note 78.

103. See Int'l Trade Rep. (BNA) No. 16, at 700 (Apr. 19, 1995).

104. See 12 Int'l Trade Rep. (BNA) No. 18, at 772 (May 3, 1995).

105. *Id.*

106. *Id.*

107. *Id.*

Mexico not only is not meeting its NAFTA commitments, but has attempted to further inhibit competition: "U.S. express delivery companies are faced with pending regulations requiring them to divest of services they were able to offer prior to NAFTA, for providing across-the-board exemptions to Mexican carriers," it stated.¹⁰⁸ Investigation of these charges will certainly carry through to the end of 1995.

In addition, the Office of the U.S. Trade Representative, in a report listing foreign trade barriers—stated that U.S. exporters to Mexico experienced difficulties in certain areas during the first year of the NAFTA's implementation due to Mexico's administration of its customs and trade regulations.¹⁰⁹ The report listed Mexico's new certificate of origin requirements for non-NAFTA goods,¹¹⁰ as well as a March 7, 1995 Mexican labeling decree as areas of primary concern.¹¹¹ The report listed laborious inspections at the U.S.-Mexican border, cumbersome NAFTA origin audit procedures, difficulty in clearing low-value shipments to importers not on the import registry, and unavailability of reliable information on Mexican regulations as among the customs-related problems.¹¹² Several examples of these and other related issues detailed in the report include the following:

a. Although Mexico converted its import licensing requirements to tariff-rate quotas (TRQs) as a part of NAFTA's agricultural provisions, but the United States has received little timely information on how the TRQs are being filled;

b. U.S. exporters have encountered difficulties as a result of Mexican implementation of standards regulations, and pointed to a March 7, 1994 decree (effective the following day), which identified imported goods subject to Mexican labeling, products standards, and certification requirements;

c. In the latter half of 1994, Mexico restructured procedures for testing and certification of products subject to mandatory safety and performance standards, but the requirement that all testing be done in Mexican laboratories occasionally presented conflicts of interest where the only accredited lab belonged to the importer's domestic competition;

d. In addition, the report delineated that certain U.S. agricultural goods, such as potatoes, cherries and cling peaches, encountered barriers in Mexico in the form of phytosanitary standards; and

e. Finally, the report noted that specific concerns on the protection of intellectual property remain, specifically in the form of the absence of criminal prosecutions of violations; for instance, apparently "no corrective action" has been taken in recent months to make the legal provision in the Industrial Property Law that contains a "troublesome" provision against film-dubbing consistent with NAFTA requirements.¹¹³

108. *Id.*

109. See 12 Int'l Trade Rep. (BNA) No. 14, at 626 (Apr. 5, 1995).

110. See 12 Int'l Trade Rep. (BNA) No. 11, at 500 (Mar. 15, 1995) (noting that discussions over stringent new certificate of origin requirements adopted by Mexico have reached a "stalemate").

111. *Id.*

112. *Id.*

113. *Id.*

2. Protectionist Trade Measures Taken Against Other Nations

Third, the Zedillo Administration announced on February 28, 1995 that tariffs on imports coming from countries that are *not* engaged in trade accords with Mexico will be elevated to the "maximum levels consolidated by Mexico in the World Trade Organization."¹¹⁴ Conversely, President Zedillo said that Mexico's trade agreements with other countries (including the United States, Canada, Chile, Costa Rica, Columbia, Venezuela and Bolivia) "provide enough safeguards for the national industry."¹¹⁵ Hence, the Zedillo Administration asserted that it will impose temporary quotas for the importation of clothing products because Mexican producers are being severely affected under the peso devaluation, and stated that Mexico will "negotiate" with its trade partners on the adoption of these quotas.¹¹⁶ President Zedillo emphasized that these measures were temporary and based on the "lack of reciprocity that our producers are confronting in those markets,"¹¹⁷ and thus informed the World Trade Organization that it would raise to 35% import tariffs for apparel, shoes and leather products.¹¹⁸ Although U.S.-made goods in this regard are not directly affected by the announcement, U.S. retailers and companies specializing in footwear strongly criticized the Mexican tariff-type plans as they frequently market footwear products made in Asia for importation into Mexico.¹¹⁹

3. European Union—Mexico Initiatives

Even as the Zedillo Administration imposed new tariffs on countries that are not currently engaged in trade accords with Mexico, on April 10, 1995 the European Union foreign ministers approved a European Commission strategy paper recommending trade liberalization and a reinforced economic relationship with Mexico that could lead to an eventual free trade agreement.¹²⁰ The ministers called on the European Commission to present them with a concrete proposal to negotiate a new political, trade and economic agreement with Mexico by the end of 1995. "With the unanimous vote by the 15 ministers, we now have an EU strategy towards Mexico, rather than just a permission strategy," said Josep Coll I. Carbo, spokesman for Manuel Marin, the European Commissioner responsible for external relations with Latin America.¹²¹ European Union and Mexican authorities also finalized a formal declaration of their intention to work together more closely, which they hope to sign in the near future.¹²² The declaration text develops a new accord between the two trade partners that would include progressive and reciprocal trade liberalization for goods, services, and investment, in line with World Trade Organization rules,¹²³ and further would reinforce cooperation in business, industrial technology, telecommunications, scientific

114. See 12 Int'l Trade Rep. (BNA) No. 9, at 420 (Mar. 1, 1995).

115. *Id.*

116. *Id.*

117. *Id.*

118. See 12 Int'l Trade Rep. (BNA) No. 10, at 457 (Mar. 8, 1995).

119. *Id.*

120. See 12 Int'l Trade Rep. (BNA) No. 15, at 668 (Apr. 12, 1995).

121. *Id.*

122. *Id.*

123. *Id.*

research and political issues between the two parties.¹²⁴ Further, the declaration calls on the European Investment Bank, the EU's independent, long-term lending institution that assists in financing capital investment projects in Europe and in countries with cooperation agreements, to increase its activity in Mexico.¹²⁵ Although some Commission officials question reinforcing relations with only one member of the NAFTA, the EU executive ministers decided that it was still necessary to keep and strengthen bilateral ties with the individual NAFTA signatory countries.¹²⁶

C. MAJOR LEGAL INITIATIVES IN MEXICO: FEBRUARY-MAY 1995

The Zedillo Administration also introduced several regulatory initiatives intended to revive foreign investment in several of the ailing sectors of its economy. The proposed rules and regulations include the following:

1. On February 4, 1995, the Zedillo Administration announced that regulations which would commission new railroad and satellite concessions—among them the amount of foreign participation—would be sent to the Mexican Congress in April 1995.¹²⁷ Carlos Ruiz Sacristan, head of the Secretariat of Communications and Transport, stated that the new regulations—which make necessary changes in the Law of General Means of Communications (*Ley de Vías Generales de Comunicación*)—would define the technical and financial conditions that foreign participants must meet, the service areas each concession will cover, and the limits in foreign investment under each one.¹²⁸ Along with the privatization of railroads and satellites, Ruiz stated that the agency would also grant other concessions in the seaport and airport systems as part of a comprehensive strategy that would attempt to connect Mexico's transportation network.¹²⁹

2. On February 15, 1995, the Zedillo Administration published new regulations in the *Diario Oficial* which permit greater foreign participation (up to 49% ownership, or more with the authorization of the Finance Secretariat) in the ownership of Mexican commercial banks.¹³⁰ However, although the serious liquidity problems facing the Mexican banking system have cut share prices and made some banks appear to be attractive investment targets, there is so far little indication of any significant inflow of foreign capital into that sector.¹³¹

3. On April 26, 1995, the Mexican Senate approved legislation that will allow foreign competition in the Mexican telecommunications sector.¹³² Although the

124. *Id.*

125. *Id.*

126. *Id.*

127. See 12 Int'l Trade Rep. (BNA) No. 6, at 258 (Feb. 8, 1995).

128. *Id.*

129. *Id.*

130. See 12 Int'l Trade Rep. (BNA) No. 8, at 346 (Feb. 22, 1995).

131. *Id.* See also Carmelo Lodise, *Pulling for U.S. Banks—When the Economy Gets Tough, Roping Investment Gets Tougher*, *Business Mexico* (Mar. 1995).

132. See Int'l Trade Rep. (BNA) No. 18, at 771 (May 3, 1995).

proposed Law of Telecommunications does not address the subject of whether high fees will be charged to telecommunication companies entering the Mexican market, it does state that foreign companies will be limited to 49% ownership in joint ventures providing basic telephone, long-distance, and cellular services.¹³³ The proposed legislation also limits licensing concessions granted solely for the use of radio spectrum and satellites for up to 20 years, and will be renewable subject to conditions to be determined in the future.¹³⁴ As of May 3, 1995, commentators asserted that the legislation has since moved to the House of Representatives, where it is expected to pass within the next couple of weeks.¹³⁵ Most of the major U.S. corporate players—AT&T, MCI, GTE, Sprint, Motorola, TeleGlobe and Bell Atlantic—have already forged strategic alliances with Mexican partners in readiness for the opening of Mexico's long-distance telecommunications market in January 1997.¹³⁶ However, major European carriers are largely uninvolved, primarily because 80% of Mexico's international calls are made to the United States.¹³⁷

4. On April 27, 1995, the Mexican Ministry of Finance and Public Credit issued guidelines for maquiladora companies (foreign-owned export manufacturing firms that are allowed to import component parts duty-free) to assist them in complying with Mexico's transfer pricing policies.¹³⁸ The guidelines delineate the necessary steps that maquiladoras must follow to comply with Mexico's transfer pricing laws. Although the maquiladoras did not have to comply with these laws until the end of 1994, an amendment to Mexico's tax laws stated that those companies would have to follow Mexico's transfer pricing regulations as of January 1, 1995.¹³⁹ As per the amendment, maquiladoras must comply with the arms-length principles in accordance with the guidelines established by the Organization for Economic Cooperation and Development: they must use the applicable methods to establish transfer prices, such as the comparative uncontrolled price, resale price, and cost-plus method.¹⁴⁰ The recent guidelines for complying with the transfer pricing rules are designed to "ease compliance, provide legal certainty, and simplify the administrative procedures for maquiladoras," representatives of the Ministry of Finance stated.¹⁴¹ The guidelines provide maquiladoras with three options for complying with the transfer pricing regulations:

133. *Id.*

134. *Id.*

135. *Id.*

136. See Leslie Crawford, *Rivals Eager to Enter Mexico's Telecoms: The Shape of Market Rules After Deregulation in 1997 is Becoming Clear*, The Financial Times Ltd. (May 5, 1995), available on LEXIS.

137. *Id.* See also Claudia Hernandez, *What's On-Line for the Future*, Business Mexico (Jan.-Feb. 1995).

138. See 12 Int'l Trade Rep. No. 18, at 778 (May 3, 1995).

139. *Id.*

140. *Id.*

141. *Id.*

- (i) Maquiladoras that have a net profit of at least 5% of the value of all assets for the fiscal 1995 year will be deemed to have complied with the transfer pricing regulations;
- (ii) If maquiladoras expected to have a net profit of at least 5% of the value of assets but failed to do so as of the end of fiscal year 1995, can still comply with the transfer pricing laws if they apply for an advance pricing agreement; or
- (iii) Maquiladoras that estimate less than 5% return on assets can also request a unilateral or bilateral advance pricing agreement.¹⁴²

Under the first and third options, maquiladora companies must file a notice of their election before May 31, 1995.¹⁴³

5. On May 3, 1995, Mexico's Energy Regulatory Commission, the *Comision Reguladora de Energia*, stated that new regulations allowing for private investment in the transportation, storage, and distribution of natural gas in Mexico were being considered and should be released within six months.¹⁴⁴ Hector Olea Hernandez, President of the Commission, stated that the agency will (i) help define the terms under which the private sector can operate in Mexico's energy sector, and (ii) seek to create a "family environment" for investors in order to promote private investment in the sector.¹⁴⁵ The new legislation was approved by the Mexican Senate on April 30, 1995 after earlier approval in the House of Representatives.¹⁴⁶ Even so, the exploration of petroleum and gas will be left in the hands of PEMEX; the legislation specifies that only Mexican companies will be permitted to build and operate facilities for distribution, storage, and transportation of natural gas, but will allow foreign companies to have a large (but still unspecified) percentage of ownership in those activities.¹⁴⁷ The purpose of this legislation is fairly clear: while Mexico has large reserves of natural gas, PEMEX's distribution system for the fuel is considered to be inadequate, as only two main pipelines for the transport of natural gas currently exist, and much of Mexico still remains unserved.¹⁴⁸ Thus, by attracting private investment for the aforementioned activities, the Commission hopes that this investment will "free up" PEMEX's resources for exploration, and will eventually lead to Mexico being a net natural gas exporter.¹⁴⁹

142. *Id.*

143. *Id.*

144. See 12 Int'l Trade Rep. (BNA) No. 19, at 813 (May 10, 1995).

145. *Id.*

146. *Id.*

147. *Id.*

148. *Id.*

149. *Id.*

V. Conclusion

The Zedillo Administration will undoubtedly be enmeshed in a political and economic impasse for the remainder of 1995 as its economic austerity plan and accompanying regulatory initiatives will have both positive and negative effects on the Mexican economy and population. However, the author would assert that it is up to the international trade and investment community to recognize the deleterious position of the Zedillo Administration, and to guide and support Mexico's reemergence into a leading market for international trade and investment. This support would most clearly be manifested by (i) foreign companies, investment mutual and pension funds and governments reinvesting in Mexico's banks and equities market, and to likewise invest in the strategic sectors of the Mexican economy that are now or will soon be open to foreign participation, and (ii) to utilize the newly created CME futures and option peso contracts to hedge against peso currency risk in making these investments.

—Christopher D. Olive